Q3

With reference to the Indian economy, consider the following statements: 1. If the inflation is too high, Reserve Bank of India (RBI) is likely to buy government securities. 2. If the rupee is rapidly depreciating, RBI is likely to sell dollars in the market. 3. If interest rates in the USA or European Union were to fall, that is likely to induce RBI to buy dollars. Which of the statements given above are correct? (a) 1 and 2 only (b) 2 and 3 only (c) 1 and 3 only (d) 1, 2 and 3 Official key: B.

UPSC Civil Services Prelims 2022 · General Studies · 2 marks · Economy

Indian economy, budget, schemes - Prelims GS Paper I.

Explanation

(a)

1 and 2 only. If inflation is high, RBI sells (not buys) G-secs to suck out rupees.

(b) Official key

2 and 3 only. A falling rupee: sell dollars. Lower US/EU rates: capital inflows, RBI buys dollars to lean against a surge.

(c)

1 and 3 only. Statement 1 is the wrong OMO direction.

(d)

All three. Buying G-secs is easing, not a high-inflation response.

Summary

Official key is (b) 2 and 3 only. High inflation calls for tightening - RBI sells securities, it does not buy them. A rapidly falling rupee is met by selling dollars. A fall in US/EU rates draws money into India; RBI often buys dollars to keep the rupee from jumping.

Related possible facts

These can be asked in a future Prelims paper.

OMO
Open market operations in G-secs - the domestic liquidity tool.

Forex intervention
Buy/sell dollars to manage INR volatility.